

# **2 FAM 020**

## **SYSTEMS OF MANAGEMENT CONTROLS**

*(TL:GEN-279; 11-01-1992)*

### **2 FAM 021 SCOPE AND AUTHORITY**

#### **2 FAM 021.1 Policy**

*(TL:GEN-279; 11-01-1992)*

a. It is Department of State policy that all Department managers (domestic and at post) must establish cost-effective systems of management controls to ensure U.S. Government activities are managed effectively, efficiently, economically, and with integrity. Responsibility for preventing fraud and waste is not solely confined to financial or internal audit personnel. Each manager and supervisor, whether in accounting, administration, program, or budget, is responsible for management controls. A sound management control process is a dynamic, cost-saving management tool. Management control programs must anticipate and prevent (as well as detect and correct) errors, irregularities, and mismanagement.

b. The Department of State shall maintain effective systems of management controls. All levels of management are responsible for ensuring adequate controls over all Department operations. New organizations, programs or functions shall incorporate effective systems of management controls.

c. As required by the Federal Managers' Financial Integrity Act (FMFIA), all management control systems shall incorporate the General Accounting Office's (GAO) Internal Control Standards. Managers shall evaluate such systems on an ongoing basis; correct detected weaknesses in such systems; perform risk assessments as circumstances warrant, but not less than every five years and prior to an inspection by the Inspector General whenever possible; and undertake management control reviews once need is determined. The adequacy of the Department's control systems shall be reported annually to the President and the Congress.

#### **2 FAM 021.2 Requirements**

*(TL:GEN-279; 11-01-1992)*

a. The Accounting and Auditing Act of 1950 requires the head of each executive agency to establish and maintain adequate systems of internal accounting and administrative controls, i.e., management controls.

b. The Federal Managers' Financial Integrity Act of 1982, codified as 31 U.S.C. 3512, (hereafter referred to as the Act), amended the Accounting and Auditing Act of 1950. The Act's basic requirements and objectives are essentially those of the original Office of Management and Budget (OMB) Circular A-123 with these additions:

(1) Internal accounting and administrative control standards were to be prescribed by the Comptroller General (Standards for Internal Control in the Federal Government, issued in 1983);

(2) Evaluations are to be conducted by each executive agency of its system of internal accounting and administrative control in accordance with guidelines established by the Director of the Office of Management and Budget; and

(3) An annual statement of assurance is to be submitted by the head of each executive agency to the President and the Congress on the status of the agency's systems of management controls.

c. The Chief Financial Officers Act of 1990, Pub. L. 101-576, (hereafter referred to as the CFOs Act), has as one of its stated purposes the improvement of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources.

d. OMB Circular A-123, entitled Internal Control Systems, issued October 1981, and revised in 1983 and 1986, promulgated a government-wide management control policy and a system of agency responsibilities and requirements. The circular was issued to address instances of fraud, waste, and abuse of government resources and mismanagement of government programs resulting from weaknesses in management controls or weaknesses in compliance with management controls. Subsequent revisions to Circular A-123 called for each agency to develop an annually updated Management Control Plan (MCP) which documents the risk assessments of agency operations, management control evaluations, and implementation of corrective actions on a formal follow-up tracking system.

e. OMB's continued emphasis on management controls resulted in additional requirements:

(1) To install an early warning system, which alerts managers and OMB to material weaknesses before they become critical;

(2) To report semiannually by milestone completion dates on the status of action plans for correcting those areas of heightened risk for waste, fraud and mismanagement, otherwise known as high risk areas;

(3) To validate that corrective actions undertaken have achieved the intended results; and

(4) To link the corrective action plans to the budgeting process.

f. The Management Control Program applies to all the program, administrative, and financial areas of the Department.

## **2 FAM 021.3 Definitions**

*(TL:GEN-279; 11-01-1992)*

a. Assessable Unit is any Department segment having one or more management control systems, upon which periodic risk assessments must be performed. All Department segments must be assessed with the exception of those involved in statutory development or interpretation, determination of program need, resource allocation, rulemaking, or other discretionary policy-making processes.

b. Corrective Action Review (CAR) is designed to validate the results of actions taken to correct a material weakness. Normally coordinated by the Bureau or Office Management Control Coordinator, the CAR will be completed within one year of reporting the material weakness as corrected. Results of the CAR are reportable to the Management Control Steering Committee.

c. Department Segment is a component (organization, program, operation or function) having a specific, responsible manager.

d. Early Warning System is a formal procedure used by all levels of management to alert senior management to the possibility of issues which, if allowed to continue, may result in the identification of new material weaknesses or in embarrassment to the Secretary or the Department. Notification of OMB may be required on critical issues.

e. Evaluation and Corrective Action Documentation must be maintained for risk assessments, management control reviews, and follow-up corrective actions to provide a record of the methods used, the personnel involved and their roles, the key factors considered, and the conclusions reached. This information will be useful for reviewing the validity of conclusions reached, evaluating the performance of individuals involved in the assessments and reviews, and performing subsequent assessments and reviews. The incumbent manager of the segment must retain this documentation for a period of not less than three years.

f. FMFIA Program Handbook (2 FAH-2, to be issued in 1993), written by the staff of the Chief Financial Officer, is designed to assist and guide management and staff at all levels through the activities associated with good management control.

g. Internal Control/Management Control is the plan of organization, methods and procedures adopted by management to provide reasonable assurance that throughout all organizational elements and activities of the Department, the objectives of management control are implemented. The objectives, which are enumerated in the Act, are summarized as follows.

(1) Obligations and costs comply with applicable law;

(2) Assets are safeguarded against waste, loss, unauthorized use and misappropriation;

(3) Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained; and

(4) Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

h. High Risk Area may be a material weakness or other functional area defined by OMB which is subject to significantly higher risks for waste, fraud, and mismanagement. Such designation may entail outside interest as to the Department's corrective actions. OMB must concur in the designation of an area as high risk.

i. Management Control Coordinator is a senior level manager designated by an Assistant Secretary, Office Head or Chief of Mission to ensure the requirements of the FMFIA and the Department's

Management Control Program are adequately carried out by the bureau, office, or post.

j. Management Control Evaluation is a detailed evaluation of a program or activity to determine whether adequate and appropriate control techniques exist. There are two types:

(1) Management Control Review is a detailed examination of the systems of management controls using the procedures and techniques in the Management Control Guidelines and the Department's FMFIA Program Handbook.

(2) Alternative Management Control Review is an Inspector General audit; or a financial, computer security system, management or consulting review. The review determines that the control techniques of the activity are operating in compliance with Circular A-123. These types of reviews can be used in lieu of a management control review if they encompass the same scope and techniques of a management control review.

k. Management Control Guidelines were issued by the Office of Management and Budget in December 1982 and supplemented in August 1986, entitled Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government.

l. Management Control Objective is a desired goal or condition to be achieved by the control techniques used on a component. Each objective is to take into consideration the nature of the component and the requirements of Circular A-123 (Revised). Limiting factors such as budget constraints, statutory and regulatory restrictions, staff limitations, and the cost-benefits of each control technique are to be considered in determining desired management control objectives.

m. Management Control Officer is the Chief Financial Officer (CFO) who is designated by the Secretary to direct the Department's implementation of and compliance with the Federal Managers' Financial Integrity Act.

n. Management Control Plan (MCP) is an annually-updated written plan which summarizes the Department's actions regarding risk assessments, management control evaluations and planned corrective actions.

o. Management Control Standards are the standards issued by the Comptroller General on June 1, 1983, for use in establishing, maintaining and evaluating systems of management control. These are applicable to all Department operations and administrative functions but are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policy-making.

p. Management Control System is the sum of the organization's methods and measures used to achieve the objectives of management control.

q. Management Control System Documentation consists of written policies, organization charts, procedures, manuals, memoranda, flow charts, decision tables, software, and other related written materials pertaining to management controls within each Department segment. This documentation must be current and permanently on file. Such documentation will serve to:

(1) Describe the management control methods and measures;

(2) Communicate responsibilities and authorities for operating such methods and measures; and

(3) Assist in the review of the management controls and their functioning.

r. Management Control Techniques are the processes and documents relied upon to efficiently and effectively accomplish a management control objective and thus help safeguard an activity from waste, loss, unauthorized use, or misappropriation.

s. Material Weakness is a specific instance in which noncompliance with management control standards is of such importance that it needs to be reported to the President and Congress. Such weakness would:

(1) Significantly impair the fulfillment of an agency component's mission;

(2) Deprive the public of needed services;

(3) Violate statutory or regulatory requirements;

(4) Significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property or other assets;

(5) Result in a conflict of interest;

(6) Merit the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee; or

(7) Are of a nature that omission from the report could reflect adversely on the actual or perceived management integrity of the agency.

t. Reasonable Assurance is a judgment by Department management based upon available information that the systems of management control are operating as the FMFIA intended.

u. Risk Assessment is a documented review of the susceptibility of an assessable unit to fraud, waste, loss, unauthorized use or misappropriation. The review will focus on areas such as the existing inherent risk or vulnerability, existing general control environment and safeguards in place, and adherence to the management control standards. Risk assessments will be performed in accordance with the management control guidelines, augmented by further guidance and procedures distributed by the Department's Management Control Officer.

v. Statement of Assurance is a letter or memorandum which states or certifies to a higher level of management that the required evaluation of management controls was conducted in accordance with OMB Circular A-123, and that the organization's systems of management controls taken as a whole complies with the GAO standards and provides reasonable assurance that programs are effectively carried out in accordance with applicable law. The statement also identifies the material weaknesses, if any, in the organization's systems of management controls, however identified, and contains a plan for correcting these weaknesses.

## **2 FAM 021.4 Authorities**

*(TL:GEN-279; 11-01-1992)*

The authority to establish, maintain, evaluate, improve and report on management controls throughout the Department is derived from:

- (1) Accounting and Auditing Act of 1950, 31 U.S.C. 3512;
- (2) Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. 3512;
- (3) Chief Financial Officers Act of 1990, 31 U.S.C. 902;
- (4) OMB Circular A-123 (1981, revised 1983 and 1986); and

(5) OMB Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government issued December 1982 and supplemented August 1986.

## **2 FAM 022 RESPONSIBILITIES**

### **2 FAM 022.1 The Secretary**

*(TL:GEN-279; 11-01-1992)*

The Federal Managers' Financial Integrity Act (FMFIA) requires the Secretary to sign and transmit to the President and the Congress each year by December 31, a statement of assurance (as of the close of the fiscal year) which provides reasonable assurance as to the adequacy of management controls throughout the Department, disclosure of any material weaknesses, and identification of planned corrective actions.

## **2 FAM 022.2 The Under Secretary for Management**

*(TL:GEN-279; 11-01-1992)*

The Under Secretary for Management is responsible for establishing and maintaining systems of management controls over all operations within the Department of State. This responsibility includes determining that systems are functioning as prescribed and are modified as required by changes in conditions.

## **2 FAM 022.3 The Chief Financial Officer**

*(TL:GEN-279; 11-01-1992)*

a. Serves as the Management Control Officer for the Department, under authority delegated by the Secretary.

b. Ensures the implementation of all statutory and procedural requirements prescribed by the Federal Managers' Financial Integrity Act, and OMB Circular A-123, Internal Control Systems.

c. Prepares the annual assurance statement from the Secretary of State to the President and Congress.

d. Maintains a Management Control Plan (MCP) which summarizes the Department's risk assessments, planned actions, and management control evaluations to be undertaken to provide reasonable assurance that controls are in place and working.

e. Chairs the Management Control Steering Committee which establishes Department policies and procedures for implementing and evaluating management controls.

f. Provides the Under Secretary for Management periodic written or oral progress reports regarding significant weaknesses in management controls and policy issues requiring consideration which are outside the purview of the Management Control Steering Committee.

g. Directs the segmentation of the Department into organizations, programs, operations and functions; develops an inventory of assessable units; ensures that risk assessments are performed on a periodic basis and that management control reviews are undertaken upon determination of need; and monitors the implementation of corrective actions.

h. Provides advice and technical assistance in developing necessary guides for performing risk assessments and management control reviews and designing management control systems.

i. Approves subsequent plans for risk assessments and reviews of management control systems.

j. Establishes and maintains a program of quality assurance over management control evaluations, reviews and follow-up corrective actions.

k. Recommends Management Control Steering Committee action on proposed management control designs.

l. Ensures that appropriate follow-up action is taken on management control weaknesses and financial losses, providing necessary guidance in designing needed additional controls.

m. Maintains a continuing liaison with and awareness of the activities of other Department elements having responsibilities for activities that contribute to the goals and objectives of the Management Control Program.

n. Reviews General Accounting Office, Inspector General, contractor, or management reports which apply in whole or in part to management controls; reviews analyses the Office of Information Systems Security performs which focus on Automated Data Processing (ADP, general and application controls); and ensures that risk assessments, management control reviews, and determinations of weakness consider these sources of information.

## **2 FAM 022.4 Management Control Steering Committee (MCSC)**

*(TL:GEN-279; 11-01-1992)*

a. A Management Control Steering Committee of Department officials at the Assistant Secretary or equivalent level, chaired by the Management Control Officer (Chief Financial Officer) is responsible for setting management control policy that will meet the needs of the Department. The Under Secretary for Management selects the members. The Inspector General and Deputy Legal Adviser are nonvoting members of the committee.

b. In addition, the members of the Committee will assist the Management Control Officer in:

(1) Ensuring that statutory and procedural requirements established by the Federal Managers' Financial Integrity Act and OMB Circular A-123 are carried out.

(2) Setting management control objectives for the Department.

(3) Providing oversight of the Corrective Action Review and other validation processes for the Department.

(4) Clearing on all drafts and the final version of the annual FMFIA statement of assurance.

(5) Attending all meetings of the Committee and ensuring the Principal Deputy Assistant Secretary, or equivalent, is available to attend when unavoidable travel commitments prevent attendance by the member.

c. Beginning with the second quarter of the calendar year, meetings will be held at least once each quarter until the last quarter of the calendar year, then meetings will be held as frequently as necessary to ensure timely preparation and clearance of the FMFIA statement of assurance. Committee members may be accompanied to meetings by key staff members unless notified by the Chair that the Committee will be meeting in executive session.

## **2 FAM 022.5 Bureau and Office Heads and Chiefs of Mission**

*(TL:GEN-279; 11-01-1992)*

a. Develop and maintain appropriate systems of management controls for their organizations.

b. Implement, maintain, and review management controls on an ongoing basis to determine whether the controls are adequate and functioning as prescribed.

c. Perform risk assessments as frequently as circumstances warrant, but not less frequently than every five years and prior to an inspection by the Inspector General.

d. Report promptly to the Management Control Officer all significant management control deficiencies, weaknesses and financial losses for inclusion in the Management Control Plan (MCP). Follow-up reports on the corrective action(s) planned or taken to prevent a recurrence must be submitted to the Management Control Officer on a semiannual basis.

## **2 FAM 022.6 Management Control Coordinators**

*(TL:GEN-279; 11-01-1992)*

a. The Assistant Secretary, Office Head, or Chief of Mission designates Management Control Coordinators. Fulfilling assigned responsibilities must be a critical job element in performance agreements of Management Control Coordinators. In addition, Bureau and Office Management Control Coordinators should be the chief liaison and quality assurance officers to the Management Control Officer's staff.

b. The Assistant Secretary or Office Head shall submit the name, title, address, and telephone number of the Coordinator to the Management Control Officer within 20 days from the issuance of this subchapter, and thereafter, whenever the designated Coordinator is changed. The individual designated should be a senior level manager.

c. With direction and guidance from the Management Control Officer, the Bureau or Office Management Control Coordinator will:

(1) Determine the inventory of assessable units for the Bureau or Office;

(2) Conduct or arrange for all relevant management control training;

(3) Coordinate the timely performance of risk assessments and management control reviews (when required) among managers responsible for the assessable units within the Bureau or Office and thoroughly review all management control process products prior to their submission to the Management Control Officer;

(4) Ensure that managers of assessable units consider General Accounting Office and Inspector General reports and audits, contractor and management studies and analyses performed by the Office of Information Systems Security, when evaluating management controls within their area of responsibility;

(5) Evaluate proposed Bureau/Post corrective actions to ensure they represent an effective and cost beneficial approach for resolving identifiable weaknesses or risks within existing resource constraints; and

(6) Track and monitor these same required activities among the Post Management Control Coordinators reporting to the Bureau or Office. d. The Chief of Mission designates a Post Management Control Coordinator at each embassy and major mission and submits the name, title, address and telephone number of this Coordinator to the cognizant Bureau or Office Management Control Coordinator within 45 days from the issuance of this subchapter and thereafter, whenever the designated officer is changed. The individual designated should be a ranking officer with direct access to the

Chief of Mission or Deputy Chief of Mission on matters related to management controls.

## **2 FAM 022.7 Director General of the Foreign Service and Director of Personnel**

*(TL:GEN-279; 11-01-1992)*

The Director General of the Foreign Service and Director of Personnel, with advice and guidance from the Management Control Officer, is responsible for establishing and issuing procedures to provide that performance agreements appropriately reflect management control responsibilities, for developing and issuing guidance for recognition of positive accomplishments related to management control and for appropriate disciplinary action for violations.

## **2 FAM 022.8 Director of the Foreign Service Institute**

*(TL:GEN-279; 11-01-1992)*

a. The Director of the Foreign Service Institute, with advice and guidance from the Management Control Officer, is responsible for establishing courses of instruction on policies, procedures, methods and systems of management controls, as well as on approaches to evaluating, improving and reporting on systems of management controls utilizing risk assessments and management control reviews.

b. In addition, the Director is responsible for:

(1) Coordinating the development of course content with the Management Control Officer;

(2) Revising course content to reflect changes to policies, procedures, methods, and systems of management controls; and

(3) Providing the Management Control Officer periodic reports on course effectiveness and student evaluation of course content.

## **2 FAM 022.9 Inspector General**

*(TL:GEN-279; 11-01-1992)*

a. The Inspector General (OIG) has the responsibility, under Section 209 of the Foreign Service Act of 1980 and the Inspector General Act of 1978, as amended, for conducting ongoing reviews of management controls to determine whether controls are documented, adequate, effective, operating as intended and whether they need to be strengthened. The OIG may conduct these reviews at any time.

b. Provides counsel and technical assistance to the Management Control Officer on all phases of the management control evaluation and improvement process.

c. Performs audits, inspections, special reviews, and follow-up reviews to assess the implementation of management control policies and the effectiveness of management controls.

d. Reports to the Secretary of State as to whether implementation of the Federal Managers' Financial Integrity Act and OMB Circular A-123 have been adequately accomplished at all levels of the Department and whether reports rendered to the Secretary on accomplishments are fairly stated.

e. Reports all significant management control weaknesses and financial losses determined through audits, investigations, and inspections to the Under Secretary for Management and the Management Control Officer.

f. Serves as a nonvoting member of the Management Control Steering Committee to offer advice and guidance to the Committee regarding audit and inspection findings, material weaknesses, status of corrective actions as well as other management areas of concern and interest to the Department.

## **2 FAM 022.10 Department Managers**

*(TL:GEN-279; 11-01-1992)*

a. All managers throughout the bureaus, offices, and posts are responsible for maintaining and monitoring systems of management controls in their areas and performance agreements must appropriately reflect this responsibility.

b. Provide the Management Control Officer with plans, reports and necessary information required to fulfill the responsibility for ensuring that policies and standards established by the Federal Managers' Financial Integrity Act, OMB Circular A-123, and this subchapter are met and carried out. This includes, but is not limited to, the Chiefs of Mission statements of assurance submitted to regional bureaus and the corresponding bureau/office statements of assurance submitted to the Secretary which support the Secretary's statement to the President and the Congress.

c. Submit reports to the Management Control Officer on significant positive accomplishments related to management control and disciplinary action taken for significant violations of management controls.

## **2 FAM 023 MANAGEMENT CONTROL EVALUATION AND IMPROVEMENT PROCESS**

## **2 FAM 023.1 Implementation**

*(TL:GEN-279; 11-01-1992)*

a. The responsibility for improving management controls in the Department rests with Bureau, Office and Post managers, under the direction and guidance of the Management Control Officer. The evaluation, improvement and reporting process is comprised of seven steps:

- (1) Organizing the process,
- (2) Segmenting the organization,
- (3) Conducting risk assessments,
- (4) Developing plans for subsequent actions,
- (5) Conducting management control reviews,
- (6) Taking corrective actions, and
- (7) Reporting on management controls.

b. Coordinating with bureau and office management control coordinators, the Management Control Officer will develop an implementation schedule and guidelines for each of the steps above. The bureau and office management control coordinators are responsible for further dissemination and coordination to ensure compliance.

## **2 FAM 023.2 Reporting Accomplishments or Violations Relating to Management Controls**

*(TL:GEN-279; 11-01-1992)*

a. As necessary, the head of the Bureau or Office shall send to the Management Control Officer a report in the form of a memorandum setting forth the following:

- (1) If appropriate, the name and position of the officer(s) or employee(s) responsible for the accomplishment or violation.
- (2) All pertinent facts, including the type of accomplishment or violation, the primary reason or cause of violations and any statement of the responsible officer(s) or employee(s) with respect to circumstances believed to be extenuating.
- (3) A statement of the administrative action taken to reward recognized accomplishments and discipline violators of management controls including, if applicable, an explanation as to why no administrative action was taken.

(4) A statement recommending additional steps that could be taken relating to the individual (e.g., award or disciplinary action) or the system (e.g., communicate accomplishment to other Department organizations or develop and issue new safeguards to prevent recurrence of the violation).

b. As appropriate, use applicable TAGS and follow procedures for including this material in the individual(s) official personnel file (see 3 FAM ).

## **2 FAM 024 THROUGH 029 UNASSIGNED**